DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97–1

REBUTTAL TESTIMONY OF
JON M. STEELE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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I. AUTOBIGRAPHICAL SKETCH

My name is Jon M. Steele, Vice President, Area Operations for the Northeast Area of the United States Postal Service. My duties include the direct management of nine performance clusters located in the Northeast. They range from Buffalo and Albany, NY to seven performance clusters in New England. In total this includes the Springfield Bulk Mail Center, the major Airport Mail Center in Boston, fifteen major processing plants and 2,632 Post Offices. Our annual operating budget is $4.08 Billion, and our annual revenues are $4.5 Billion. I manage through an executive staff of district managers, lead plant managers, and area office executives. They in turn oversee some 75,456 employees, both career and non-career.

Immediately prior to my assignment to the Northeast Area in August, 1996, I served as Vice President, Area Operations, for the Allegheny Area. This area includes several major metropolitan areas with numerous Post Offices and over thirty Processing and Distribution facilities, Bulk Mail Centers, and Airport Mail facilities covering Ohio, Pennsylvania, Delaware, and parts of New Jersey and West Virginia.

I joined the Postal Service in 1962 as a craft employee while supporting myself in college. I interrupted my career for service in the United States Navy, and joined the Post Office Department, Boston Regional Office in 1970. I have

1   spent my entire postal career in field operations, having served approximately 17

2   years of that time as a Postmaster, MSC Manager and Division Manager.

3

4   For twelve years I served in Springfield, MA as the Division Manager and

5   manager of the Management Sectional Center. My duties included all operations

6   for western Massachusetts and Vermont with over 400 associate offices, plants

7   in both states and the Bulk Mail Center at Springfield. I directly managed the

8   combined Bulk Mail Center and plant in Springfield.

9

10   I served as the General Manager in the New Jersey Bulk and International

11   Mail Facility for nearly a year in the 1980's. I've held a variety of positions in

12   District and Area Offices, and have worked extensively on detail in a variety of

13   locations across the nation. I hold a bachelors degree from the University of

14   Massachusetts. In addition, I graduated from the Harvard Advance Management

15   Program and have done graduate work in Business Administration.

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2   II. PURPOSE OF TESTIMONY

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4   My testimony responds to testimony of witness Stralberg and others

5   concerning "automation refugees". Specifically, witness Stralberg alleges "the

6   existence of considerable additional 'not-handling' time in the form of 'automation

7   refugees,' i.e. employees no longer needed in manual letter sorting but still in the

8   system, having been reassigned to the manual operations, particularly opening

9   units, where productivity is least monitored in postal facilities." Tr. 26/13841.

10   In part III, I describe how this concept is entirely foreign to postal operations.

11   Automation implementation did not create refugees. Postal Management

12   recognized from the beginning that automation would reduce staffing

13   requirements in manual distribution operations and our automation planning

14   ensured that we would avoid having excess career employees.

15   In part IV, I describe the incentive structure in operations management. In

16   particular, I describe how I manage operations in the Northeast Area so that

17   operations management, from the plant manager to the most junior line

18   supervisor, has every incentive to avoid excess staffing. The system of

19   accountability and incentives is such that there is nowhere to hide hours.

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III. AUTOMATION IMPLEMENTATION DID NOT CREATE REFUGEES

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A. "Automation Refugee" is not a Familiar Concept in Postal Operations

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My managers and I are well aware of the mailing community's concern
with postal costs, and the special concern of periodical mailers that their
costs appear to be increasing more rapidly than they should be. Until asked
to testify in this proceeding, however, I had never heard the expression
"automation refugee". Indeed, when my managers and I are listening to our
customers and struggling so hard to maintain service while reducing costs, it
strikes me as absurd to suggest that there is a pool of excess employees that
are not needed to process the mail. Certainly, veteran managers can tell
stories of the early days of automation in the 1980s when we weren't sure
exactly how to manage this new technology and the complex mail flows it
engendered, but I am not aware of anything resembling a systemic problem
of "automation refugees" even then. In any case, by 1990 at the latest,
operations management had a clear picture of what needed to be done.

B. Postal Planning Accommodated Staff Reductions due to Automation

In the early 1990s, the Postal Service negotiated a series of agreements
with the Postal Unions governing Transitional Employees. As Article 7 of the

1   agreement with the American Postal Workers Union states (see USPS LR-H-

2   88):

3   "Transitional employees may be used to cover duty assignments which

4   are due to be eliminated by automation........The use of transitional

5 ,   employees will be phased out as the deployed automation equipment

6   becomes operationally proficient."

7   That was our plan.

8

9   C. Automation Implementation Avoided Creating Excess Career Employees

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11   The history of the Transitional Employee program demonstrates that we in

12   fact accomplished our plan. I am told that the use of Transitional Employees

13   for clerk and maintenance work in the plants peaked between December,

14   1993 and June, 1995, with approximately 22,000 on the rolls. The current

15   national total is about 500 in the plants.[1]

16

17   IV INCENTIVES AND ACCOUNTABILITY ENCOURAGE ECONOMY

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19   A. Incentives Encourage Staffing Economy

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21   As shown in Exhibit USPS-RT-8A, "FY 98 EVA Variable Pay Program

22   Recommendations", employees exempt from the wage and hour laws receive

23   incentive payments based in equal parts on service performance, personnel

1   incentive payments based in equal parts on service performance, personnel

2   metrics, and financial performance. In addition, national financial

3   performance determines the size of the overall incentive payment pool.

4   The Postal Service is divided into geographic areas called Performance

5   Clusters so that the performance of the Post Offices and mail processing

6   plants within each area can be measured collectively. For Performance

7   Cluster employees, the financial performance portion of their score is based

8   50% on national performance, 25% on their Area performance, and 25% on

9   the achievement of their Performance Cluster. The 257 Processing and

10   Distribution facilities where most mail processing occurs are distributed

11   among the 85 Performance Clusters so that a manager or supervisor at a

12   facility perceives a direct relation between the financial performance of their

13   facility and their personal financial interests.

14

15   B. Accountability Encourages Staffing Economy

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17   The idea that one of my plant mangers might be hiding a pool of

18   "automation refugees" is not realistic. Let me explain the pressure they are

19   under to maintain good service and still operate economically. Daily, we

20   review any delayed mail from the previous night and pay special attention to

21   any delayed periodicals. If a plant manager had excess employees, she

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[1] These numbers exclude Remote Encoding Centers.

1   Every Monday afternoon, I have a telephone conference with my District

2   and plant managers to review the raw performance data from the previous

3   week. Each Accounting Period we meet physically and once a Quarter there

4   is a full scale Business Review. The common element in all of these reviews

5 ; is management of resources with emphasis on reducing the career

6   complement, maximizing effective use of the least costly labor categories,

7   and maintaining service.

8   It may be useful to describe these meetings in greater detail. Each

9   Monday afternoon the staff, the performance clusters and myself hold a

10   telephone conference to discuss the past week's performance. Key

11   concerns center on total operating expenses, especially salaries and

12   benefits, employee mix, overtime, and revenue. Additionally we discuss the

13   other voices, that is the voice of the customer - service, and the voice of

14   employee - training, safety, complement management etc. The focus of

15   these telephone conferences is on how we did in the past seven days, what

16   we need to do to improve in the coming weeks, and what the outlook is for

17   the rest of the year.

18

19   Each accounting period, that is every four weeks, the lead Plant

20   Managers, District Managers, the Area Staff and myself meet for two days,

21   typically here at the Area Office in Windsor. We again focus on how well we

22   did, but now over the past 4 weeks and year to date, emphasizing any gaps

23   in performance and areas where there is room for improvement. We have

1   hard data available for these meetings and focus on our net income, salaries

2   and benefits, total operating expense, total facility productivity, etc. We also

3   have an opportunity to look at economic value added (EVA) with an eye to as

4   how best to improve performance in all categories. Additionally we spend

5   significant time on the voice of the customer, particularly service, and the

6   voice of the employee, especially safety, training and complement

7   management.

8

9   At our quarterly Business Review meetings we meet with the Lead Plant

10   Managers, the District Managers and their direct reports in each Performance

11   Cluster. The meetings with each Performance Cluster typically last about half

12   of a day and we discuss all the above in detail , especially total facility

13   productivities, complement trends, what we need to do to position ourselves

14   to be successful for the rest of the year and how best to service our

15   customers. These are intense and detailed discussions geared to mid-course

16   adjustments to plans and assumptions. Complement trends are most

17   apparent in quarterly data, so complement is always a major element of these

18   discussions. My managers are all sensitive to the significant cost differences

19   between career and non-career employees.

20

21   At the conclusion of the year, we wrap up the fifty-two weeks with a focus

22   on how well we did, and what we need to improve on for the coming year.

23

1   The point of this narrative is the common thread of discussion -- from

2   week, to accounting period, to quarter, to end-of-year -- focusing on skillful

3   utilization of resources and the ability to make our budget while providing

4   outstanding service. The key to our success in the United States Postal

5   Service has been focus, attention to detail and planning.

6

7   C. The Incentives Extend onto the Plant Floor

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9   In addition to the competitive aspects, incentive awards can be financially

10   significant to the recipients. I am told that in FY 1997 every Performance

11   Cluster made their financial goals and that last December the average

12   supervisor had 9.89% of annual salary credited to her incentive payment

13   account, and 6.67% paid out in cash. Their supervisor, the Plant Manager,

14   has a larger incentive payment opportunity and, as I explained above,

15   substantial encouragement to help his supervisors manage economically.

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17   D. Line Supervisors get the Mail Out, but do it Economically

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19   The Plant Manager and her supervisors work to fulfill the Operating Plan as

20   productively as possible. Productivity in distribution operations is carefully

21   monitored, but everyone is aware that excess workhours in allied operations such as

22   Opening Units, where there are no effective workload productivity measures, would

23   wipe out hard-won gains in distribution productivity. Witness Stralberg describes

1   Opening Units as the "least monitored". This is the opposite of the truth. Opening

2   Units are usually in a very visible location where they are easily monitored. The

3   Plant Manager and supervisors pass by Opening Units frequently. Any experienced

4   manager can evaluate the workload based on visual inspection and recognize

5   whether it is operating efficiently. If employees wanted to "hang-out", they certainly

6   wouldn't choose Opening Units as the place to do it.

7   No Plant Manager knows in advance exactly how much mail his facility must

8   process on a given night, exactly when it will arrive, or precisely how many of his

9   employees will show up for work. But, supervisors have a number of tools to get the

10   mail out and still operate economically. For example, they can:

11   •send employees to lunch early

12   •call employees in early or send part-time employees home.

13   •call for voluntary or mandatory overtime

14   •offer annual leave to regular employees

15   •shift employees between operations as workload requires and as skills

16   and labor agreements permit.

17   All of these decisions must be made quickly on-the-spot with fragmentary

18   information, but this is what we expect of our supervisors. Record service

19   levels and a strong financial performance over the last three years testify to

20   the good job they are doing.

FY 98 EVA VARIABLE PAY PROGRAM
RECOMMENDATIONS

1. Compensable Indicators, Measures, Targets and Weights (see footnotes below)

Voice (Bonus Share)	Indicator (footnotes)	National Target	Weight	Headquarters Employees	Area Office Employees	Perf. Cluster Employees
VOC (1/3)	EXFC - Overnight (a)(f)	92	Threshold for VOC	100% National	100% Area	100% PC
	EXFC - 2/3 Day (b,e,f)	85	45%	100% National	100% Area	100% PC
	Priority (c,e,f)	85	45%	100% National	100% Area	100% PC
	Ease of Use -Composite (d,e,f)	630	10%	100% National	100% Area	100% Area
VOE (1/3)	Training (g,j)	E15+ 97 E14- 97 Craft 100	33%	50% National 50% HQ	100% Area	100% PC
	Goal Knowledge Survey (h,j)	90	33%	100% National	100% Area	100% PC
	Lost Workday Injury (e,i,j)	2.13	34%	100% National	100% Area	100% PC
VOB (1/3)	Financial Performance - EVA (e,k,l,m)	TBD	100%	50% National 50% Areas	50% Nat 50% Area	50% Nat .25% Area 25% PC